Vietnam Construction Industry Country Report

VACC

HIỆP HỘI NHÀ THẦU XÂY DỰNG VIỆT NAM

I. Overview of the macro economy and the Construction Industry

1. Overview of Vietnam macro economy in 2013:

Under the impact of the global financial crisis and economic recession, year 2013 continues to be a difficult year for all kinds of enterprises in Vietnam in compared with year 2012. Macroeconomic situation has not any sign of improvement despite the government also tried to implement the solutions to remove bad debts, inventory, reduce tax for businesses enterprises .... According to statistics, in 2013, there were 63,000 business enterprises bankruptcy and stop operations in which the number of enterprises operating in the field of construction & real estate were over 10,000 enterprises. However, in 2013, the Government's efforts in managing monetary policies has basically solved the pending problems of the previous year to prepare for the growth in the next period. The establishment and operation of Vietnam Assets Management Corporation (VAMC) by the Government since July 2013 has reduced the impact of "bad debt" storm. Measures to curb inflation have begun to take effect such as: decreasing the interest rates, limiting the speed of closure of business enterprises, the economy has prospered and the real estate market started having signs of recovery. Particularly, in 2013, the interest rate reduced 2%-5%, and has returned to the interest rate of the stage of year 2005-2006. Restructuring process includes investment restructuring, credit and financial restructuring, focus on commercial banks and state - owned enterprises (SOE) restructuring although is still slow but has gained some initial results. The operation of the banking system is controlled and ensure safety - the weak banks were restructured. In the year 2013, the Vietnam Government has promoted SOE restructuring process when deciding to terminate the operation of Vinashin Group and transfer to model of corporation under the new name of SBIC; investigate irregularities in Vinalines Group; approved the restructuring plan of the series big state - owned corporations such as VNPT, SCIC, VietnamAirlines ...

Please see Table 1 in the Annex: Marcroeconomic Indicators 2007 - 2012

2. Overview of Vietnam Construction Industry

Management model of Vietnam Construction Industry: Ministry of Construction is an agency of the Government for performing the state management function of: construction planning, architecture; construction management activities; urban development; technical infrastructure of urban & industrial parks, economic zones, hi-tech parks; houses; offices; real estate market; construction materials; construction engineering science technology; international cooperation in the construction field; state management of public services in the fields as prescribed by law; management of construction enterprises under the Ministry ...

According to statistics of the Ministry of Construction, at the time of 01/01/2013, the total number of Vietnam enterprises operating in the fields of construction industry (including construction, production of construction materials , construction consulting and real estate business) are 68.649 enterprises. In which, construction enterprises are 46.500, producing construction materials enterprises are 2.892, construction consultancy enterprises are 12.681, real estate business enterprises are 6.639. Thus, the number of enterprises operating in this industry has increased by over 4.369 in compared at 01/01/2012. Total number of employees is about 2.283,3 thousand employees. The enterprises operating in the construction industry are in many different economic sectors. In particular, state-owned enterprises are in the process of equitation & restructuring their business operations so there will be many better changes to adapt to dynamic market mechanism. Particularly, during in the past few years, the private business sector are constantly developing and growing stronger having position and revenue in the construction of key projects contracts as well as contracts with foreign partners increase up.

Regarding to experience and capacity of equipment, scientific and technical level of the construction industry : The Vietnam construction enterprises now have the experience and equipment capacity as well as scientific and technological level equal to the region's countries and Asia. During the transfer and collaboration process, more machinery and latest technology in construction are applied such as: foundation construction technology , monolithic structural construction technology and assemblies high-rise buildings, finished equipment... ; big-span bridge construction technology, construction technology of highway, sea ports, airports, underground project... ; public irrigation, hydropower, thermal power, oil refinery, the nuclear

power plants; equipment installation technology, system operating technology, human resource management technology ... ;

The high performance materials are used in construction such as: semi- tempered glass, fire resistant materials, high-performance cement , high performance steel ...

The construction equipment such as: observations , experiments , testing, project management software... as well as the other technologies such as: anti- shock technology , smart home technology , energy saving technology ...are common used in construction process.

Workers Forces: This is a big issue in the Vietnam construction industry. Over 80% of construction workers do not meet professional standards and have not been trained through schools and are seasonal workers. Most of them still have working habits from rural agriculture such as seasonal working, lack of expertise ...

Advantages: Vietnam is the country receiving funds from ODA of Word Bank, ADB and funding from other nations to improve its infrastructure systems. Therefore, the cost for the construction industry continues being invested by the Government and the cooperation trends in this field with partners specially with foreign partner is still inevitable trend and will have many opportunities to succeed.

II. Overview of the Vietnam Construction Industry in 2013

General difficult situation of macro economy in 2013 has greatly affected the construction industry in Vietnam in particular. The real estate market remains quiet, business of construction enterprises is still in a difficult situation; settling inventory and bad debt continues to be a major challenges for the construction industry especially in the real estate business activities and production of building materials. According to statistics, in 2013 Vietnam had 63,000 businesses went bankrupt and closed, in which the bankrupt & closed construction enterprises are 10,077. New establishment registered enterprises in 2013 are 10.635 (including 9.940 construction enterprises, 695 real estate business enterprises).

Production value of construction industry in 2013 at current prices is estimated at 770.4 trillion Vietnam dong (US$ 36.68 billion) , including: State area reached 92.6 trillion Vietnam dong (US$ 4.4 billion) , accounting for 12 % and the non-state sector 644.1 trillion Vietnam

dong (US$ 39.67 billion), accounting for 83.6 % and the foreign invested sector reached at 33.7 trillion Vietnam dong (US$ 1.6 billion), accounting for 4.4%.

The production value of construction in 2013 classified by type of works as follows: house buildings reached 333.3 trillion Vietnam dong (US$ 15.8 billion), non- housing buildings reached 128.2 trillion Vietnam dong (US$ 6,1 billion); civil engineering works reached 219.4 trillion Vietnam dong (US$ 10.45 billion), professional construction activities reached 89.5 trillion Vietnam dong (US$ 4.2 billion).

Thus, in the year 2013 the production value of construction industry rose by 6.2% compared to the year 2012 and accounted for 5.94 % of the national GDP and is considered one of the positive factors in economy's growth in 2013.

The national average house area is about 19.6 m2/person (increase of 0.6 m2 / person compared to 2012);

Total cement output consumes in 2013 is about 61 million tones, reaching 107.5% of the plan year, in which the domestic consumption is 47 million tons and about 14 million tones is for export.

Besides that, according to the report of World Bank on the 11 indicators of the favorable level of business environment in Vietnam, in 2013, the indicator of settling procedures for issuing construction permits reached highest rank in 11 indicators, ranks 28/185 countries, raised up 39 grades in compared with 2012 (67/183) and is one in two indicators increased ranking compared with 2012 (09 remaining indicators are reduced ranking).

Despite reaching some positive results but the activities of the construction industry still exists issues and difficulties in the year 2013 such as: The employer done improperly processes, procedures which cause delays in the payment process lead to the lack of capital & incompetence of small and medium business enterprises. The disbursement progress of some projects, although having changes but have not met the actual needs. The weather in 2013 was complicated with prolonged heavy rain in many area of the country which affected the progress and quality of works.

Please see Table 2 in the Annex: Share of Construction Industry (CI) to the Gross Domestic Product (GDP) and Investment 2007 - 2012

III Outlook of Vietnam Construction Industry in 2014

Entering the year 2014, the Vietnam macro economy has many signs of improvement, the banking system was restructured, interest rate is reduced at 8-9%/year, the exchange rate is stable, the credit growth is positive, the number closed businesses enterprises is reduced in compared with the same period in 2013. According to the ADB's forecast, Vietnam's GDP will increase slightly to 5.6% in 2014 and to 5.8% in 2015. Such better signs of general situation of economy will bring the recovery of real estate market and will be premises for the recovery of the construction industry.

Besides that, with the determination to accelerate the process of SOE restructuring of the Government, in 2014, many corporations and large construction companies will be equitation and will create major changes in the management and operation's mechanisms. All these actions will create an active and leapfrog development for Vietnam's construction industry.

Please see Table 3 in the Annex: Construction Industry Forecast

ANNEX I

Table 1: Macroeconomic Indicators 2007-2012

	2007	2008	2009	2010	2011	2012	1H2013
TOTAL POPULATION (mn) ***As of 1 July***	**84.22**	**85.12**	**86.02**	**86.93**	**87.84**	**88.78**	**n/a**
GDP (mn USD), *by industrial origin at current market price*	**71,016**	**91,095**	**97,180**	**106,426**	**123,719**	**128,224**	**71,827**
Of which: Construction (mn USD)	4,949	5,870	6,461	7,47	7,936	8,465	3,586
Price Index Annual Change (%)	**8.3**	**23.1**	**5.9**	**10.0**	**18.6**	**9.2**	**2.4**
External Trade (mn US)							
Export FOB	48,561	62,685	57,096	72,237	96,906	114,600	62,000
Import CIF	62,765	80,714	69,949	84,839	106,750	114,300	63,400
Trade balance	(14,204)	(18,029)	(12,853)	(12,602)	(9,844)	300	(1,400)
Exchange rate(Dong per USD) *at end of period*	**16,105**	**16,302**	**17,065**	**18,613**	**20,490**	**20,897**	**21,080**

Source: ADB, BMI and Vietcombank

Table 2: Share of Construction industry (CI) to the Gross Domestic Product (GDP) and Investments 2007 - 2012

	2007	2008	2009	2010	2011	2012	2013F *
GDP (mn USD)	**71,016**	**91,095**	**97,180**	**106,426**	**123,719**	**128,224**	**160,018**
GDP of CI (mn USD)	**4,949**	**5,870**	**6,461**	**7,476**	**7,936**	**8,465**	**9,519**
% contribution CI to GDP	7.0%	6.4%	6.6%	7.0%	6.4%	6.6%	5.9%
% growth rate of CI	n/a	18.6%	10.1%	15.7%	6.2%	6.7%	12.5%
Total Capital Investment (mn USD)	**n/a**	**n/a**	**n/a**	**37,845**	**36,383**	**40,562**	**45,457**
% CI to investment	n/a	n/a	n/a	19.8%	21.8%	20.9%	20.9%

*Source: ADB and BMI; *: Forecasted data from BMI*

Table 3: Construction industry forecast

	2014f	2015f	2016f
CI value	10,722	11,969	13,334
% change y-o-y	12.6%	11.6%	11.4%

Source: BMI and GSO